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SUBJECT: FRENCH PRESIDENTIAL ELECTIONS: THE MESSAGE FROM THE  
BUSINESS COMMUNITY

Summary

**¶1.** (SBU) As campaigning picks up for France's Presidential elections in April, business groups and think tanks are making their voices heard in unusual ways to "ensure that key economic issues are not ignored." All forms of communication -- from special web sites, to books and jamboree-style meetings in sports venues -- are brought into play to publicize the challenges facing business and highlight reform goals such as greater labor flexibility, cuts in government spending, cuts in payroll taxes, more innovative SMEs, and a more efficient education system. At the same time, French business groups are jumping into the fray to reconcile French public opinion with the market economy and counter a widespread attitude of mistrust toward business among the French political class and population-at-large. End of Summary.

Business is having its say in French politics

**¶2.** (SBU) Less than three months before France's April 2007 Presidential elections, business initiatives have multiplied to ensure that critical economic issues facing France are addressed in the campaign. The business community fears that political parties may lack the economic acumen or the political courage to initiate concrete proposals for tackling major structural problems, such as sluggish growth (2.0 percent in 2006), chronic unemployment (at 8.6 percent), labor market rigidity, high payroll taxes, a soaring public debt (66 percent of GDP) and a record trade deficit (29 billion euros in 2006).

**¶3.** (SBU) France's leading business lobby, MEDEF, was the first business organization to appoint itself as the policy "suggestion box" for candidates during the presidential campaign. As one MEDEF senior official recently told us, "politicians had absolutely no economic ideas or programs." The business think tank Enterprise Institute has followed suit, adopting a high-profile to heighten public awareness of fundamental structural problems that prevent the economy from growing more quickly and creating jobs at a more rapid pace. Other business organizations such as "Croissance Plus" ("Growth Plus"), which groups innovative companies, have since jumped into the fray in a bid to force presidential candidates to take a stance on long-avoided policy issues.

Varied ways of delivering the message

**¶4.** (SBU) MEDEF, France's largest federation of companies, recently kicked off its official campaign with the publication of a book entitled "A Need for Air," which contains proposals to "revive French economic growth and competitiveness and increase the wealth of all French people." Speaking before 6,000 of its delegates in Paris' largest sports and concert arena during its annual assembly, the head of MEDEF, Laurence Parisot, called for lower payroll taxes, a reform of the education system and a more flexible labor market. She also argued for a non-punitive tax regime to be enshrined in France's constitution, a requirement for balanced public spending, and tax incentives to promote innovation, especially in small and medium-sized companies.

¶5. (U) Reacting to pledges from the current government to raise the minimum wage, Parisot further suggested that an independent commission be set up to decide on the minimum wage. She asked that the next government appoint a senior official in charge of overseeing reforms to make France more competitive. To highlight the excessive tax burden on French companies, she pointed out that the total cost of employing a worker earning 50,000 euros (USD 65,000) per year was 35 per cent higher in France than in the United States. Comparatively high payroll taxes prevent French companies from increasing salaries, creating jobs and taking risks.

¶6. (U) Adopting an equally high profile, leading business lobby group Enterprise Institute ("Institut de l'Entreprise"), initiated a special website ([www.debat2007.fr](http://www.debat2007.fr)) which analyzes the two leading candidates' economic platforms, and assesses their costs. In light of proposals made so far, the Enterprise Institute estimates Segolene Royal's economic program would cost some 53 billion euros a year in additional expenses, while center-right UMP Party election promises add up to just under 50 billion euros in additional annual spending.

¶7. (U) Headed by Michel Pebereau, Chairman of the Board of Directors of leading bank BNP Paribas, the Enterprise Institute has long been sounding the alarm to control the public deficit and reduce public debt. Ways to deal with these and other major structural reforms have been outlined in its upbeat book: "It is possible! This is How...". A newcomer to the Presidential scene, "Croissance Plus" recently published its own 91 proposals to spur the creation of innovative small companies and introduce flexibility in the labor market in a book entitled "Let Gazelles Run." Sarkozy Gets the Message

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¶8. (U) Proposals by MEDEF, Enterprise Institute and Croissance Plus have already been incorporated into the platform of center-right UMP party leader Nicolas Sarkozy. On taxes, Sarkozy recently pledged that any hour worked beyond the legally defined 35-hour work week

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would be tax-free for both employers and workers. Firms which invested and created jobs would pay lower taxes on their profits. He further promised to reduce the ceiling for all direct taxes to 50 percent of revenues from the current 60 percent. Sarkozy would also reduce the French corporate tax rate, which at its current level of 33 percent is eight points above the European average.

¶9. (U) On labor flexibility, Sarkozy proposed to do away with France's two-tier system of work contracts (long and short-term) and introduce a single contract with streamlined dismissal procedures. The aim is to end a split in the labor market between employees on generous open-ended work contracts that are costly to terminate, and those on short-term contracts with little security. To ensure the survival of France's generous pension system, Sarkozy has already proposed raising the retirement age and addressing the inequalities between public and private sector workers by reforming the so-called "special regimes" - i.e., overly generous public enterprise pension plans.

Looking beyond the Presidential Race

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¶10. (SBU) MEDEF, the Enterprise Institute and Croissance Plus all see the task of the business community as daunting in the longer term. As a member of the French Association of Private Enterprises (AFEP) put it succinctly to us: "We have to make the State understand companies and convince French public opinion that the state is not omnipotent and that companies and markets can be trusted to generate growth and jobs." The French business community is aware that people still prefer by and large to believe that the "public powers" will "tame" companies, protect workers and spur economic growth with public spending. In a 22-country survey published in January 2006, France was the only nation disagreeing with the premise that the best system is "the free-market economy." In the poll, conducted by the University of Maryland, only 36 percent of French respondents agreed, compared with 65 percent in Germany, 66 percent in Britain, 71 percent in the United States and 74 percent in China.

¶11. (U) The business community believes that these attitudes are behind French reluctance to introduce flexibility into the labor market and accept the realities of deregulation and globalization.

As a result, both the business community and the government are reaching out to schools and university campuses through workshops, debates and internship programs for students as well as economics teachers, to change mindsets. As Henri de Castries, head of the insurer Axa, told participants to a MEDEF workshop on "liberalism" last summer: "When we reject liberalism, it is because we are scared of reform. I think fear among the troops reflects a lack of vision by their leaders."

¶12. (SBU) French business executives know they must steer a delicate course if they are to persuade presidential candidates of the need for economic reform without alienating a French public that is skeptical of the private sector. While the political right believes business is more firmly in its camp than in any recent election, MEDEF's Secretary General told us recently that despite Nicolas Sarkozy's talk of "rupture," he's not convinced the UMP candidate is a "grand liberal." As Finance Minister Sarkozy "wanted to show the economy could be controlled by politicians," the MEDEF official said. For its part, MEDEF has consciously lowered its profile under current leadership to keep from becoming a lightning rod for anti-business criticism, and a political liability, the official said. To fend off suspicions of the private sector, Pebereau of the Enterprise Institute bluntly stated at a recent Forum of Entrepreneurs that France has to "abandon the fiction that it can have a future outside the market economy and that it can be prosperous without companies." Summing up the French business message, he said that the market economy was not an "American" or a "Right" concept, but very much a notion for the 21st century.

STAPLETON